

Making Financial Projections for a Business Plan



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Who Said?

- About financial data:

“so many inaccuracies” “very poor” “plain wrong”

- About projections:

“lacking in reality” “trespassing on the fanciful”

Scope of Session

- Preparing for Financial Projections
- Q&A
- Making Financial Projections
- Q&A

Structure of a Business Plan

Source: Free-Plan template at www.planware.org/busplan.htm

1. Introduction
 2. Summary
 3. Mission & Strategies
 4. Present Status
 5. Products/Services
 6. Target Markets
 7. Marketing/Sales Plans & Projections
 8. Technology & R&D
 9. Operational Plans
 10. Management & Admin
 11. ***Financial Projections***
 12. ***Funding***
 13. Implementation
 14. Conclusion
- Appendices

Marketing/Sales Projections

1. *“We aim to achieve only 1% of the market which is worth €5 zillion”.* **TOTALLY UNACCEPTABLE**
2. Base projections on pilot selling, industry knowledge, market research etc. and build from bottom up and **NOT** top down.
3. Use performance and cost data to determine sales. Examples:

Two online software sales need 100 downloads which need 300 visitors which cost €200.
Sales rep typically achieves annual sales of €600k.
A shop in similar area had 200 customers/day spending €10/visit.
4. Develop price & volume projections by month for 1-2 years with marketing/sales budgets.

Other Feeder Sections

- Make realistic assumptions – Aim for 80% probability, not 50/50.
- Adhere to industry norms e.g. “food costs account for 30% of menu price” or “gross margins are normally 25%”.
- Get quotes for major items.
- Make projections based on volumes and unit costs e.g. head count times salaries/person.

Financial Sections & Sub-Sections

11 Financial Projections

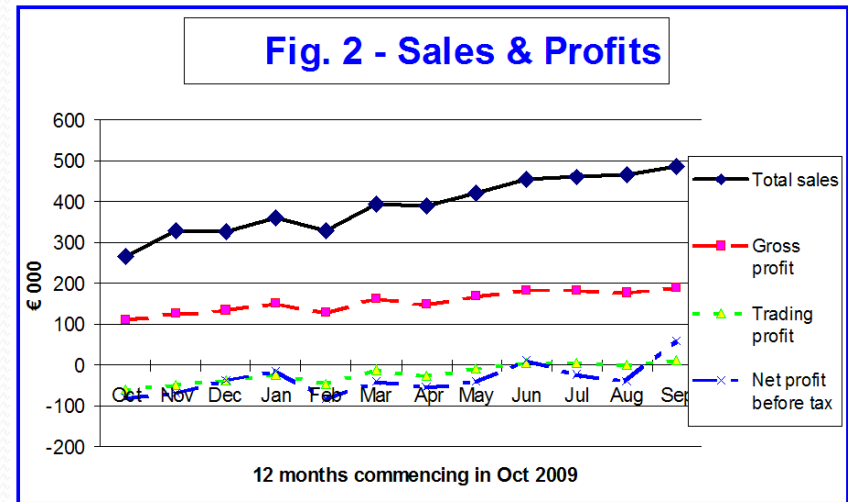
1. Key Assumptions
2. P&L Projections
3. Cashflow Projections
4. Projected Balance Sheets
5. Key Ratios
6. Sensitivity Analysis

12. Funding

1. Funding Requirements
2. Funding Proposals

Contents of Financial Section

- Sensible time horizon & intervals.
- Focus on the big numbers.
- Use charts, mini-tables and bullets to explain.
- Aim for 3-5 pages for #11 and one page for #12.
- Place all detail in appendices.



Years to end Sep	08-09	09-10	10-11	11-12	12-13	13-14
	Act/Est	Proj	Proj	Proj	Proj	Proj
	€000	€000	€000	€000	€000	€000
Sales	2,313	4,680	6,742	8,044	9,251	10,176
Cost of sales	<u>1,350</u>	<u>2,814</u>	<u>4,041</u>	<u>4,719</u>	<u>5,458</u>	<u>6,004</u>
Gross profit	963	1,866	2,700	3,325	3,793	4,172
Overheads	<u>990</u>	<u>2,106</u>	<u>1,962</u>	<u>2,188</u>	<u>2,400</u>	<u>2,600</u>
Trading profit	-27	-240	738	1,137	1,393	1,572
Depn., interest etc.	<u>3</u>	<u>-170</u>	<u>-137</u>	<u>-156</u>	<u>-81</u>	<u>-182</u>
Net profit before tax	-25	-410	602	980	1,312	1,390
Tax			<u>42</u>	<u>78</u>	<u>105</u>	<u>111</u>
Profit after tax	-25	-410	559	902	1,207	1,279
Dividends				<u>125</u>	<u>150</u>	<u>140</u>
Retained	-25	-410	559	777	1,057	1,139

How **not** to do Projections

- **Do** start the business plan with your financial projections - the more detail and tables the better !
- **Don't** summarize the projections - let readers figure out the full-year totals, profits, cash flows and so on for themselves.
- If you include projected balance sheets, make sure that they **don't** balance.
- **Don't** produce any separate cash flow forecasts - just rename the P&L projections
- **Do** ensure that your financial projections indicate 40% profit margins in the third year.
- If raising external capital, **do** explain that the projected return to investors will exceed 100% per annum within three years.

How to Develop Projections

1. **DIY on a spreadsheet** - needs time and expertise, errors, unprofessional results.
2. **Find template on the web** – likely to be very basic, not integrated.
3. **Use an accountant** – expensive, ownership of projections.
4. **Buy a modelling tool** – familiarisation, too advanced.